

BULLETIN FOR SCHOOL DISTRICT AUDITS
OF
BONDED CONSTRUCTION FUNDS
AND OF
SINKING FUNDS
IN
MICHIGAN

Michigan Department of Treasury
Local Audit and Finance Division

Effective for school district audits with fiscal year ends of June 30, 2001 and thereafter.

**REVISED BULLETIN FOR SCHOOL DISTRICT AUDITS OF BONDED CONSTRUCTION FUNDS AND OF
SINKING FUNDS IN MICHIGAN**

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INTRODUCTION

In December 1997, Local Audit and Finance Division of the Department of Treasury issued the Bulletin for School District Audits of Bonded Construction and of Sinking Funds. Since the original issue date, there has been several letters written to clarify Treasury's position related to questions raised as a result of the bulletin. This revised bulletin is an attempt to clarify the original document and incorporate the applicable portions of those letters that were issued separately.

[PA 451 of 1976, as amended, \(the Revised School Code\)](#), gives the Local Audit and Finance Division of the Department of Treasury the responsibility for establishing and implementing the requirements related to the audit of the bonded construction and sinking funds in school districts. Those requirements are threefold:

- First, for bonds beginning with issues after May 1, 1994, a school district that issues bonds under [MCL 380.1351a](#) shall have an independent audit, using generally accepted accounting principles. The independent audit must be for the school district's bonding activities and be conducted within 120 days after completion of all projects financed by the proceeds of the bonds. The school district shall submit the audit report to the Department of Treasury.

The audit of the construction fund must be conducted in accordance with generally accepted auditing standards. It may be filed with the Department of Treasury within 150 days (audit is conducted within 120 days of project completion plus 30 days to file) after completion of all projects. As an alternative, the construction fund audit may be filed as a part of the annual audited general purpose financial statements of the School District as a whole, for the next ended fiscal year. In the second alternative, there are two sets of statements for the construction fund in the audit. One as of the project completion date and the other as of the end of the fiscal year for the School District as a whole. A separate audit must be completed for each individual series of bonds issued. If this is filed as a part of the annual audited financial statements a letter must be sent to the Michigan Department of Treasury, within 120 days after completion of the project, notifying the Department as to the use of that alternative. Note: If the School District chooses to make the audit of the sinking fund and/or construction fund part of the annual audited general purpose financial statements, the auditor's opinion must take responsibility for the supplementary information.¹

- Second, the act requires that the audit, required above, encompass the entire period from the sale of the bond issue or the beginning of the project (whichever is earlier) through the completion. The objective of the audit is to determine if bond proceeds have been expended in accordance with the stated purposes for which the bonds were authorized and to render an opinion regarding such usage. These requirements are covered in this bulletin.

¹ SAS 551.04 states that the auditor "has a responsibility to report on all the information included in the document."

- Third, a school district that levies a sinking fund tax under [MCL 380.1212\(1\)](#) must annually have an independent audit conducted, using generally accepted auditing standards. If the Department of Treasury determines from the audit report that the sinking fund was used for a purpose other than those authorized under the law, the school district shall repay the misused funds to the sinking fund from the school district's general operating funds. It also shall not levy a sinking fund tax as provided by law after the date the Department of Treasury made that determination.

The purpose of the bulletin is to establish standards and procedures to assist the independent certified public accountant in the conduct of their audit. The bulletin is intended to set forth minimum procedures, but does not guarantee that by use of all the suggested procedures a satisfactory audit will result. In the final analysis, there is no substitute for the knowledge and experience that the individual independent certified public accountant brings to the engagement. It is only through the use of these skills that an audit plan can be tailored to fit the terms of the engagement.

The primary purpose of the auditing and reporting requirements related to PA 451 of 1976, as amended, is to maintain the confidence of all interested parties in the integrity of the record keeping and financial reporting of local school districts. Interested parties include, but are not limited to, the following: citizens of the community, state and federal governments, creditors and local officials.

The audit will help to assure legal compliance that systems are in effect to adequately safeguard assets, that the provisions of the state uniform chart of accounts are being complied with, and financial statements are fairly stated in accordance with generally accepted accounting principles. The independent certified public accountant should provide the local school district with constructive recommendations that will improve efficiency, safeguard assets, make budgets more useful as "tools to management," and insure that financial reports are fairly presented.

Independent certified public accountants should be aware that while their client relationships are with the legislative body and officials of the school district, **their basic responsibility is to all users of the financial reports.** Without confidence in the integrity of financial statements, there can be no confidence in government.

It should be borne in mind by all concerned that an audit will only assure that the financial representations of the local school district are presented fairly. It cannot guarantee that the figures are absolutely correct. Nor can an independent certified public accountant guarantee that they will find any irregularities that might exist. An audit consists of a series of tests and procedures that the independent certified public accountant feels are necessary to enable them to express an opinion on the financial statements. The opinion expresses whether the financial statements are fairly presented in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The cost to perform a complete review of every transaction would be prohibitive and would still not guarantee that an irregularity would be uncovered. An adequate system of internal control, coupled with annual audits, will minimize the possibilities of fiscal irregularities. The independent auditor should follow the guidance of **Statement on Auditing Standards (SAS) No. 99**, which relates to the independent auditor's responsibility, as it relates to fraud, in the audit of financial statements conducted in accordance with generally accepted auditing standards. Also, the auditor is referred to **SAS No. 54**, which relates to illegal acts of clients.

NOTE: This bulletin repeatedly refers to the term "independent certified public accountant(s)" and it is hereby acknowledged and understood that the term "employees of the Michigan Department of Treasury" may be substituted therefore.

AUDITING STANDARDS

PA 451 of 1976, as amended, [MCL 380.1212\(1\)](#) states:

"A school district that levies a sinking fund tax under this section shall have an independent audit of its sinking fund conducted annually, including a review of the uses of the sinking fund, and shall submit the audit report to the Michigan Department of Treasury."

[MCL 380.1351a\(2\)](#) states:

"The proceeds of bonds issued under this section shall be used for capital expenditures and to pay costs of bond issuance, and shall not be used for maintenance costs. A school district that issues bonds under this section shall have an independent audit, using generally accepted accounting principles of its bonding activities conducted within 120 days after completion of all projects financed by proceeds of the bonds and shall submit the audit report to the Department of Treasury."

The audit must be performed by an independent certified public accountant registered with the Michigan State Board of Accountancy to practice in Michigan or by an employee of the Michigan Department of Treasury.

The audit of the financial records, accounts and procedures by all local units of government shall be made in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants in its **Statements on Auditing Standards**.

Auditing standards, as differentiated from auditing procedures, which relate to acts to be performed, deal with the quality of the performance of those procedural acts. These standards, discussed in greater detail in SAS 1, are outlined as follows.

General Standards

1. The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the audit and the preparation of the report.

Standards of Field Work

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.

2. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

Standards of Reporting

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

REPORTING REQUIREMENTS

What are the Reporting Options? Can there be a combined report at the end of the construction project, or does an audit need to be done in each year of the construction project? An audit report is required after construction is completed as determined by the *Certificate of Substantial Completion* ([AIA document G704 sample, Appendix F](#)). See page 11 of the bulletin for details. This report must be for the entire construction period and must include all activity in the fund for that period. The report may be issued as a separate report ([See sample Appendix C](#)) or as part of the school district's annual financial audit. When issuing the report as part of the annual financial audit, the required financial statements may be presented as supplementary information. This means that the schedules included in Appendix C pages 26 and 27 of the bulletin are included with the other additional information in the general purpose financial statements. The audit must be conducted within 120 days after construction completion. The audit report is due to Treasury within 150 days after construction project completion, or alternatively with the school district's annual financial statements from the next ended fiscal year. When electing to include the audit report with the school district's annual financial statements, the district must notify the Department of Treasury within the 120 day period.

Alternatively, the school district may engage an auditor to conduct the audit of bonded construction projects in accordance with the bulletin on an annual basis. Under this option, auditors would review financial records for compliance with the bulletin for the current year. Their opinion should cover the project to date. Working papers and prior year opinions on financial statements would be used to ensure that prior audits could be relied upon.

If the school district elects to have the funds audited annually, the following footnote should be added to the financial statements.

Sample footnotes:

Footnote 1: The Capital Projects Fund(s) include capital project activities funded with bonds issued after May 1, 1994. For (this) these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code. (In the year the Certificate of Substantial Completion is issued only, insert the following sentences:)

Beginning with the year of bond issuance, the District has reported the annual construction activity in the _____ Capital Projects Fund. The project for which the _____ (name, describe) Bonds were issued was considered complete on _____ (Use date of Certificate of Substantial Completion) and the cumulative expenditures recognized for the construction period were \$_____.

The footnote is a management assertion, however, the auditor's opinion letter presumes agreement with the management assertion.

Under this scenario, the school district must submit all of the annual audits for the construction period to the Department of Treasury along with a transmittal. The transmittal should include a summary or compilation of the annual audits and a certification from the district that the compilation accurately reflects the attached audits. [See Appendix D](#), is a sample transmittal package.

In some cases, audits that were done prior to the issuance of the Department of Treasury bulletin may not have the proper disclosure to show that the audits were done in compliance with the bulletin. The current auditors may remedy this by determining that the audits complied with the bulletin and asking the district to include a summary of the construction project to date as shown on pages 30 and 31 of the bulletin, and the following footnote in its financial statements.

Footnote 2: The Capital Projects Fund(s) include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the(these) _____ Capital Projects Fund(s) from the inception of the fund(s) through the current fiscal year.

Revenue	\$ _____
Expenditures	\$ _____

For this (these) capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The basic reports to be rendered by the independent certified public accountant on each fund, agency and/or operation in order to comply with the above provisions of [The Revised School Code](#) (Public Act 451 of 1976, as amended) are as follows:

1. Report on Financial Statements--The construction fund financial statements of the local school district should consist of an opinion, a balance sheet, a revenue and expenditure statement of the construction fund for the construction period, and a compliance letter. ([See Appendix C](#) for an example of the audit report, if issued for the entire construction period as a stand alone financial audit report of the entire project.) The date the Certificate of Substantial Completion ([AIA Document G704](#))

The sample form at [Appendix F](#) should be used at the completion date for audit purposes. If more than one certificate is issued because of multiple projects under one bond issue, the date of the last project certificate issued related to that bond issue should be used. A school district must contact the Michigan Department of Treasury regarding a modification of the completion date when substantial expenditures will be incurred after the date of the Certificate of Substantial Completion. This report shall conform to one of the standard forms of report on financial statements recommended by the American Institute of Certified Public Accountants.

The sinking fund should also have a balance sheet and a revenue and expenditure statement for each fiscal year; and would be audited annually as part of the district's financial audit. (When a sinking fund exists, the footnotes to the financial statements should include the following disclosure.)

Footnote 3: Sinking Funds - The _____ Capital Project Fund records capital project activities funded with Sinking Fund millage. For (this) these funds, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

2. Report on Internal Control; Management Letter; or Report of Comments and Recommendations--The report of comments and recommendations shall include a description of improper, illegal or other actions disclosed by the independent certified public accountant's procedures in connection with their audit of the bond activity transactions. Usage of bond proceeds or sinking funds must be only for projects as stated in the ballot language, for construction funds as supported by project detail used to develop the bond issue, and for sinking funds as provided in [MCL 380.1212](#) of the Revised School Code. For bonds, which have received state qualification, project information is contained in the district's school bond loan preliminary qualification application. Examples of the types of actions, which should be considered in the preparation of the report, are:
 - a. Lack of action on previous reports of comments and recommendations by the independent certified public accountant.
 - b. Unaudited funds, agencies and/or operations.
 - c. Expenditures not made in accordance with legislative appropriations and other state fiscal requirements and restrictions.
 - d. Failure to obtain prior approval for the issuance of bonds.
 - e. Inadequate or ineffective internal controls or procedures (Reportable Conditions) must be reported in the audit report as required by Government Auditing Standards. Michigan Department of Treasury requires that material weaknesses in internal controls be reported in writing in accordance with SAS 78 and Government Auditing Standards.
 - f. Lack of proper accounting procedures for bond proceeds, interest earnings, capital expenditures and debt service collections as related to [MCL 380.1215](#) and [MCL 380.1223](#).
 - g. Lack of competitive bidding procedures as defined in [MCL 380.1267](#) and [MCL 380.1274](#).

- h. Improper use of sinking fund money pursuant to [MCL 380.1212](#). The Michigan Department of Treasury interpretation of this section makes **any** improper use of sinking fund money material. For purposes of designing audit tests, materiality must be applied at the fund level. However, because of the penalties imposed by MCL 380.1212 due to the improper use of the funds by a school district, materiality is not a factor when reporting audit results. If the auditor finds any violation during their testing, it must be reported either in the schedule of findings and questioned costs or in a separate comment and recommendation letter. Note that we do not expect extra testing for this purpose.
 - i. Improper use of construction fund money pursuant to [MCL 380.1351](#). The Michigan Department of Treasury interpretation of this section makes **any** improper use of construction fund money material, as well. If the auditor finds any violation during their testing, it must be either in the schedule of findings and questioned costs or in a separate comment and recommendation letter. Note that we do not expect extra testing for this purpose.
 - j. Indication of possible fraud or irregularity must be disclosed in the audit report.
 - k. Improper disposition of unexpended bond proceeds.
 - l. Departures from generally accepted accounting principles.
3. Report on Compliance--A report regarding compliance with the above requirements applicable to the spending of bond proceeds or sinking funds. **If a separate report is issued on the bond issue, the compliance letter included in [Appendix C](#) should be issued. If the alternative reporting method is used, the Government Auditing Standards compliance letter includes the laws and regulations applicable to [MCL 380.1351a](#).** Under this reporting alternative, the annual Government Auditing Standards compliance letter is sufficient to meet Michigan Department of Treasury reporting requirements and does not need to be modified.

For Sinking Funds compliance requirements, in accordance with Government Auditing Standards (GAS), the GAS compliance letter includes the laws and regulations applicable to [MCL 380.1212](#) and does not need to be modified. Issuance of this letter is sufficient to meet related Michigan Department of Treasury reporting requirements and no additional letters are required.

If findings exist, it can be discussed in more detail in Section II of the Schedule of Findings and Questioned Costs or in the Management Letter.

4. Reports on Finding of Suspected Fraud and/or Embezzlement--During the course of an engagement, the independent certified public accountant should be constantly aware of the possibility of fraud and/or embezzlement. SAS 54 and 99 should be followed where applicable. If any fiscal irregularities, defalcation, misfeasance, nonfeasance or malfeasance come to the auditor's attention, an "oral report" should be immediately made to the Local Audit and Finance Division of the Michigan Department of Treasury. This oral report should be promptly followed up by a written report submitted to the Local Audit and Finance Division of the Michigan Department of Treasury disclosing the independent certified public accountant's findings.

The state, acting through the Attorney General's Office, is responsible for prosecution of fraud, if warranted. The Local Audit and Finance Division shall determine what further action should be taken. If it is determined that further investigation is necessary, Treasury personnel specially trained in developing evidence for possible prosecution shall perform the investigation.

Meanwhile, the independent certified public accountant, unless otherwise directed in writing by the state treasurer, should complete their normal audit. The independent certified public accountant may be requested, under a separate engagement, to assist the state in developing evidence for possible prosecution. The state may desire to have a representative directing the compilation of evidence pertaining to the suspected fraud and/or embezzlement.

To avoid any possible conflict with the professional ethics of the independent certified public accountant pertaining to the client relationship, the local unit of government or school district should give written permission to the independent certified public accountant to make the disclosures required by these reports. Written permission should be obtained prior to commencing the audit, and preferably included in the engagement letter or contract for audit. The independent certified public accountant should not discuss any suspected fraud and/or embezzlement with any representative of the local unit of government without first contacting the Local Audit and Finance Division. Similarly, the report of "comments and recommendations" should not refer to suspected fraud or embezzlement. However, the report can refer to the matter in "general" terms by stating that such a situation has been referred to the Michigan Department of Treasury.

The auditor should also follow guidance as outlined in **SAS No. 93 and Attestation Standard No. 10**, which superseded **SAS No. 75**, related to "Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement." **Attestation Standard No. 10** currently sets forth standards and provides guidance concerning performance and reporting in all engagements to apply agreed-upon procedures to specified elements, accounts, or items of the financial statement.

FILING INFORMATION

Bonded construction fund audit reports, correspondence related to school district borrowing and bonds; and one copy of the School District annual audit report (including the single audit and any management letters) should be mailed to:

Michigan Department of Treasury
Local Audit and Finance Division
P.O. Box 30728
Lansing, Michigan 48909-8228

The Revised Municipal Finance Act, [MCL 141.2303\(1\)](#), requires each school district to file an audit report annually with the Department within 6 months from the end of its fiscal year.

The Revised School Code, [MCL 388.1618\(2\)](#), requires that the annual financial audit to be filed with Department of Education by November 15th of each year. The Revised School Code, [MCL 380.1351a\(2\)](#), states that a separately issued independent audit of the bond activities must be conducted within 120 days after completion of all projects financed by the proceeds of the bonds.

- ❑ Correspondence regarding bonded construction fund audits or sinking funds should be directed to the above address or by phone at 517-373-0660.
- ❑ Bonded construction fund audits (except Durant bonds) must be conducted within 120 days of completion of the project. However, as explained above, the report may be submitted with the annual audit report. Durant bond construction fund audits may be conducted and the report submitted at the same time as the annual audit report.

Construction fund audits are only required for bonds issued under section [MCL 380.1351a](#). Energy bonds are not issued pursuant to this section and are not required to have a construction fund audit. Durant bonds were issued pursuant to MCL 380.1351a and must have a construction fund audit performed.

TYPES OF BOND ISSUES AUTHORIZED BY SECTION 1351

Non-Qualified Bonds

Non-Voted: The board of education may by board resolution, and without a vote of the electorate, issue bonds that with the district's outstanding bonded indebtedness does not exceed 5% of the state equalized valuation of the district. Such bonds are not qualified by the State Treasurer and do not go through the state school bond qualification process. Annual principal and interest payments are financed from existing funding sources. Districts may not levy a specific debt millage for this type of issue. (See Appendix A, [MCL 380.1351\(2\)](#))

Voted: Unlimited, non-qualified bonds may be issued by a school district for a period of not more than 30 years. Such issues require an affirmative vote of the electors to authorize the district to issue the specific amount of the bonds. Since these bonds are unlimited tax obligations, the local board of education has the authority and obligation to set the necessary tax rate for principal and interest payment annually. Unlimited non-qualified bonds may not exceed 15% of the assessed valuation. Unlimited non-qualified bonds do not go through the state school bond qualification process. (See Appendix A, [MCL 380.1351\(3\)](#))

Qualified Bonds

Unlimited qualified bonds may be issued by a school district for a period of 10 to 30 years and have specific minimum maturity requirements. Qualified issues require that qualification be granted by the State Treasurer and an affirmative vote of electors to authorize the district to issue the bonds.

State qualification is based on a preliminary qualification review process, which must be completed prior to the district calling for the bond election as well as a final qualification process upon approval of the bonding proposition by the district's voters.

Since qualified bonds are unlimited, the local board of education has the authority and the obligation to set the necessary tax rate for debt retirement annually. However, the local board of education has the option, under certain circumstances, to borrow funds necessary to meet annual principal and interest payments from the State of Michigan School Bond Loan Fund. A district may request state qualification of its bonds even though the district has no need or intention of borrowing from the School Bond Loan Fund.

USE OF BOND PROCEEDS

The use of bond proceeds by public schools is defined in the Revised School Code, ([MCL 380.1351-380.1372](#)). Briefly, allowable and unallowable uses of the bond proceeds (as outlined in the "School Bond Loan Program Bond Qualification Process" prepared by Michigan Department of Treasury, Cash and Debt Management Division) are as follows:

Allowable Uses

- ❑ Construction of new school buildings
- ❑ Construction of additions to existing school buildings
- ❑ Remodeling existing school buildings
- ❑ Energy conservation improvements
- ❑ Asbestos abatement
- ❑ School buses
- ❑ Purchasing land
- ❑ Developing and improving sites
- ❑ Developing and improving athletic and physical education facilities
- ❑ Developing and improving playgrounds
- ❑ Costs of this required audit
- ❑ Refunding debt (if net present value savings can be demonstrated)
- ❑ Direct bond program costs, such as: (professional fees, election fees, issuance costs, qualification fees, insurance fees, final audit costs); paid after the bond issue has been approved by voters
- ❑ Purchasing loose furnishings and equipment including furniture and equipment not permanently affixed to the building and computers for non-instructional use
- ❑ Purchasing technology, this is limited to:
 - ❑ Hardware and communication devices that transmit, receive or compute information for pupil instructional purposes
 - ❑ Initial purchase of operating system and customized application software if acquired in conjunction with hardware
- ❑ Section 1351a requires that assets with a useful life of less than 30 years must be amortized within a term that is no longer than the useful life of the asset. For purposes of school bond amortization, the following useful life standards should be used (with some waivers allowable):
 - ❑ School buses - 6 years
 - ❑ Loose furnishings and equipment - 10 years
 - ❑ Technology - 5 years
- ❑ Bond proceeds must be expended in accordance with competitive bidding requirements described under [MCL 380.1267](#) and [MCL 380.1274](#) of the Revised School Code (Appendix A)

Bond Proceeds CANNOT Be Used For

- ❑ Repairs, maintenance, or maintenance agreements
- ❑ Supplies, salaries, service contracts, lease payments, installment purchase contracts
- ❑ Automobiles, trucks, or vans
- ❑ Portable classrooms purchased for temporary use
- ❑ Uniforms

- ❑ Textbooks
- ❑ Upgrades to an existing computer operating system or application software
- ❑ Computer training, computer consulting, or computer maintenance contracts

Expenditures Which can be Made Prior to Voter Approval of Bonds and Still be Paid from Bond Proceeds

Qualified Bonds--Only expenditures for the purchase of land, unless Department of Treasury (School Bond Loan Program Section, Cash and Debt Management Division) has previously approved other expenditures, can be made prior to voter approval of bonds and still be paid from bond proceeds. It also must have clearly been the intent of the school district when the expenditure was made to replace the moneys from bond proceeds, and the moneys have been replaced within 18 months of the advance. It is the recommendation of the Department of Treasury that the school board adopts a reimbursement resolution or make a motion in the minutes at a board meeting prior to making these expenditures.

Non-Qualified Bonds--IRS regulations apply. Any capital project expenditures can be made and replaced with bond proceeds, **if** it was clearly the intent of the school district to replace the funds from bond proceeds and the moneys have been replaced within 18 months of the advance. It is the recommendation of the Department of Treasury that the school board adopts a reimbursement resolution or makes a motion in the minutes at a board meeting prior to making these expenditures.

Approval to Issue Bonds

Prior approval or an exception from prior approval to issue bonds must be obtained from Michigan Department of Treasury before bonds may be sold. Forms for approval may be obtained from the Municipal Finance Section of the Local Audit and Finance Division.

Violations of this process should be reported in the audit as a finding and brought to the attention of the school district board.

Project Completion Date

The execution date for the *Certificate of Substantial Completion* ([AIA Document G704](#)) should also be used as the completion date for audit purposes. If more than one certificate is issued because of multiple projects under one bond issue, the date of the last project certificate issued should be used.

Determining Completion Date for Audit Purposes

- ❑ To determine completion date:
 - ❑ AIA certificate of substantial completion for the bonded project.
 - ❑ The school district may request an extension (sample request for extension [Appendix E](#)) of the *completion* date if the AIA Certificate of Substantial Completion ([sample Appendix F](#)) has been issued **and** a substantial portion of the project remains to be completed (usually more than 5 percent of the original bonds). This usually occurs when a substantial portion of the bonded project is to be used for equipment, computers, furniture or renovations not requiring an architect.

- ❑ If bond proceeds are used exclusively for projects that will not require an architect to issue a certificate of substantial completion, the completion date may be determined by the school district and must be able to be substantiated. This date will be the date of substantial completion *of the project*; not to be confused with the date the bills were paid and financing completed for the project.
- ❑ If Durant bond proceeds are being used to pay for a portion of a much larger project that is otherwise being funded either from the General Fund or other bond proceeds, the school district needs to make the following determination:
 - ❑ If specific portions of the total project can be identified to and paid from each funding source, the completion date is the date of substantial completion of those identified for each bond issue.
 - ❑ If specific projects can not be attributed to specific bond issues (including Durant bonds) the completion date should be the *earlier* of: 1) AIA certificate of substantial completion date; or 2) the date that the last of the Durant dollars are spent.

Additional Projects Prior to Completion of Original Project

For bonds issued in a series, a separate audit must be conducted for each individual series of a bond authorization within 120 days of the completion of all work related to that series. A district may request an exception from completing individual series final audits if it has received approval from the Department of Treasury, Local Audit and Finance Division, to combine more than one series into one construction fund.

If a district wishes to hold a bond election for a new bond issue prior to the completion of all projects from a previous bond issue, it is recommended that districts have an interim audit. The interim audit must be on the project records from the first bond issue or series conducted before making application for a new bond issue. If requesting preliminary qualification within the school bond loan program, either the results from the interim audit or a status report regarding the first bond issue will be required during preliminary qualification review. A status report can be prepared by the district administration and should address the following issues:

- ❑ Current degree of completion of project(s) and expected final completion date.
- ❑ Total amount expended to date and a summary of expenditures by project, program or cost category.
- ❑ Audit activity that has been completed, if any:
 - ❑ Description of the scope or what activities have been completed.
 - ❑ Audit report or findings.
- ❑ Certification that all expenditures are in conformance with existing requirements for usage of bond proceeds and that bond proceeds have not been used for repair or maintenance cost; teacher, administrator or employee salaries; or other operating expenses.

This report may include, as attachments, any current and existing information available from the architect, construction manager, general contractor, auditor or school district publications which addresses the above issues.

Prevailing Wage Requirements

Sinking fund expenditures are not subject to prevailing wage requirements. Only when State money is used, are expenditures subject to prevailing wage requirements. Qualified bonds are subject to prevailing wage requirements, whether or not state school bond loan funds are borrowed.

Competitive Bids

Related to Construction Contracts

[MCL 380.1267](#) requires the board of a school district, other than first class school districts, to obtain competitive bids prior to the commencement of construction of a new building, or the addition to or renovation of an existing school building. However, MCL 380.1267 does not apply to repair in emergency situations; to repair work normally performed by school district employees; or buildings, renovations, or repairs costing less than \$12,500.00. This amount is adjusted annually using the formula in subsection 6 as calculated by the Department of Education and reported to each school district in September of each year.

Competitive bids must be taken for:

- ☐ All material and labor required for the completion of construction on a proposed new building; or
- ☐ The addition to or renovation of an existing school building.

The board must advertise for bids once each week for 2 successive weeks in a newspaper of general circulation in the area where the construction or renovation is to take place.

The statute also requires each bidder for a contract to file with the board security in an amount not less than 1/20 of the amount of the bid conditioned to secure the school district from:

- ☐ Loss or damage by reason of the withdrawal of the bid; and
- ☐ Failure of the bidder to enter a contract for performance.

MCL 380.1267 section (5) requires that all bids be opened and read aloud for each bid that the board or board of directors received at or before the time and date for bid submission specified in the advertisement for bids at a public meeting.

The board may reject any and all bids, but must re-advertise in the manner required by section (5).

Related to Procurement of Supplies, Material, and Equipment

[MCL 380.1274\(1\)](#) provides: The board of a school district or board of directors of a public school academy shall adopt written policies governing the procurement of supplies, materials, and equipment. A school district or public school academy shall not purchase an item or a group of items in a single transaction costing \$12,500.00 or more unless competitive bids are obtained for those items and the purchase of those items is approved by the school board or board of directors. This amount is adjusted annually by using the same formula, referenced above, as calculated by the Department of Education and reported to each school district in September of each year.

Audit Finding Resolution

If the State Treasurer determines from the audit report that bond proceeds have been used for purposes other than those authorized, the school district shall repay the misused funds. The misused funds must be repaid to the construction fund or the bond and interest redemption fund from the school district's general operating funds as determined by the State Treasurer.

Use of Excess Bond Proceeds

Surplus bond proceeds remaining in the construction fund, upon completion of the bonded project, may be used for school construction, equipment and site acquisition and development with the prior approval of the Debt and Cash Management Division of the Department of Treasury. The school district requesting this approval must demonstrate a “compelling” justification for not using the surplus money for bond and interest redemption of the outstanding debt. This use is restricted to 15% of the amount of the obligation (or 40% for what was formerly designated a fourth class school district located in a county with a population of less than 27,000). School districts are advised to consult their bond attorney regarding federal tax consequences possible from actions taken under this section. (See Appendix B - [MCL 388.954a](#))

Deposit and Investment of Construction Funds

Construction fund money, as with all funds of the school district, must be deposited in accordance with [MCL 380.1221](#) of the Revised School Code. Investments of all school funds must be made in accordance with [MCL 380.1223](#). The construction fund money must be kept separate from other money of the school district and each construction fund must be kept separate from all others. (See Appendix A - MCL 380.1221 and MCL 380.1223)

USE OF SINKING FUNDS

A school district may establish a sinking fund to provide funding on a pay-as-you-go basis. Such a fund must be approved through a school election and a district may levy not more than 5 mills for a period, of not more than 20 years. A sinking fund may only be used for purposes defined in [MCL 380.1212](#) and is limited by the ballot language. Briefly, these purposes are the same as described earlier under allowable bond expenditures with the following exceptions: A sinking fund may be used for repairs, but must be completed by contracted sources. A sinking fund may not be used for maintenance. Maintenance generally means keeping assets in good condition and repairs are directed at putting them back into good condition. Maintenance is preventative while repairs are curative. A sinking fund may not be used for furnishing and equipping. A sinking fund may be used for technology, but is limited to wiring or materials for installing technology; this does not include equipment or software.

Deposit and Investment of Sinking Funds

Sinking fund money, as with all funds of the school district, must be deposited in accordance with [MCL 380.1221](#) of the Revised School Code. Investments of all school funds must be made in accordance with [MCL 380.1223](#). The sinking fund money must be kept separate from other money of the school district.

Misuse of Sinking Funds and Penalties

[MCL 380.1212](#) indicates that “If the Department of Treasury determines from the audit report that the sinking fund has been used for a purpose other than those authorized for the sinking fund under this section, the school district shall repay the misused funds to the sinking fund from the school district’s operating funds and shall not levy a sinking fund tax under this section after the date the Department of Treasury makes that determination.” If the audit report indicates any money used for purposes other than those authorized by the statute, and the Department of Treasury concurs with that determination, a notice will be sent to the school district directing repayment and ordering the cancellation of future sinking fund levies without voter approval. This decision may be appealed by letter to the Department of Treasury, Local Audit and Finance Division.

Competitive Bids

[MCL 380.1267](#) requires the board of a school district, other than first class school districts, to obtain competitive bids prior to the commencement of construction of a new building, or the addition to, repair, or renovation of an existing school building. Exceptions to this requirement include repairs in emergency situations, repair work normally performed by school district employees, and projects costing less than \$12,500.00. This amount is adjusted annually using the formula in subsection 6 as calculated by the Department of Education and reported to each school district in September of each year.

Competitive bids must be taken for:

- ☐ All material and labor required for the completion of construction on a proposed new building; or
- ☐ The addition to, repair, or renovation of an existing school building.

The board must advertise for bids once each week for 2 successive weeks in a newspaper of general circulation in the area where the construction, renovation or repair is to take place.

The statute also requires each bidder for a contract to file with the board security in an amount not less than 1/20 of the amount of the bid conditioned to secure the school district from:

- ☐ Loss or damage by reason of the withdrawal of the bid; and
- ☐ Failure of the bidder to enter a contract for performance.

MCL 380.1267 section (5) requires that all bids be opened and read aloud for each bid that the board or board of directors received at or before the time and date for bid submission specified in the advertisement for bids at a public meeting. The board may reject any and all bids but must re-advertise in the manner required by section (5).

DURANT BONDS

In July 1997, the Michigan Supreme Court issued a decision in the case of *Durant vs. State of Michigan*. In this case certain school districts sued the State for under-funding five state-mandated categorical programs. Public Act 142 of 1997 amended the State School Aid Act of 1979 to provide payment to cover the under-funding to the 84 plaintiff school districts. That payment was made in April 1998. The act also provided that the state would make payments to each of over 500 “Non-*Durant*” school districts. Those school districts receiving less than \$75,000 received a lump-sum settlement payment. For the over 400 school districts whose payment amount equaled or exceeded \$75,000, the payment schedule was 50% to be paid over 10 years and 50% to be paid over 15 years. The payments spread over 10 years are to be paid annually on or about November 15 of each year, subject to legislative appropriation. The payments spread over 15 years are to be paid annually on or about May 15 of each year, also subject to legislative appropriation. PA 142 also entitled school districts to issue municipal obligations in principal amounts equal to 50% of the settlement and to pledge as security the portion that would be payable in 15 annual installments. Those school districts choosing to issue bonds in anticipation of that portion of the settlement sold the bonds to the Michigan Municipal Bond Authority in November 1998. Those bonds were authorized by the Revised School Code, [\(MCL 380.1351a\)](#).

The requirements for a construction fund audit of a *Durant* bond construction fund is substantially the same as the construction fund audit for other constructions funds of the school district. The few exceptions or modifications are as follows:

- ❑ *Durant* bond construction fund audits may be conducted and the report submitted at the same time as the annual audit report. (i.e., the 120 day requirement does not apply to *Durant* Bonds)
- ❑ If *Durant* bond proceeds are being used to pay for a portion of a much larger project that is otherwise being funded either from the General Fund or other bond proceeds, the school district needs to make the following determination:
 - a. If specific portions of the total project can be identified to and paid from each funding source, the completion date is the date of substantial completion of those identified for each bond issue.
 - b. If specific projects can not be attributed to specific bond issue, (including *Durant* bonds) the completion date should be the *earlier* of: 1) AIA certificate of substantial completion date; or 2) the date that the last of the *Durant* dollars are spent.

Durant bonds are school district bonds and the proceeds are required to be deposited in a separate debt retirement fund and a separate construction fund audit report is required.

The *Durant* bond construction fund audit must follow all other guidelines and requirements of this bulletin in other respects.

AUDITING PROCEDURES REFERENCES

Since procedures relate to acts to be performed, the following aids are presented as guidelines for the independent certified public accountant in developing auditing procedures for the audit of any local school district's bonded construction funds and of sinking funds.

- I. The independent certified public accountant must also become familiar with the Revised School Code, PA 451 of 1976, as amended. A copy of portions of this act is included as Appendix A in this bulletin. Also included, as Appendix B, are selected portions from the School Bond Loan Act, PA 108 of 1961, as amended.
- II. **Codification of Governmental Accounting and Financial Reporting Standards.** This publication may be ordered from Governmental Accounting Standards Board, 401 Merritt 7, P. O. Box 5116, Norwalk, CT 06856-5116, telephone number 203-847-0700.
- III. The publication, **Governmental Accounting, Auditing and Financial Reporting**, by the Government Finance Officers Association of the United States and Canada, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601.
- IV. **Government Auditing Standards**, by the Comptroller General of the United States. This publication may be ordered from Superintendent of Documents, US Government Printing Office, Washington, DC 20401.
- V. The publication, **Michigan School Auditing Manual**, by the Michigan Department of Education, P. O. Box 30008, Lansing, Michigan 48909.
- VI. The publication, **Accounting Manual, Michigan Department of Education** (Bulletin 1022). This publication may be ordered from Doubleday Brothers, Co., 1919 East Kilgore Road, Kalamazoo, Michigan 49002, stock number SLKS20C.
- VII. The publication, **State of Michigan, School Bond Loan Program Bond Qualification Process Manual**, by the Michigan Department of Treasury, School Bond Loan Program Section, Cash and Debt Management Division, P.O. Box 15128, Lansing, Michigan 48901.
- VIII. **The Revised Municipal Finance Act ([PA 34 of 2001](#), MCL 141.2101 to 141.2821).** This may also be obtained from the Local Audit and Finance Division, Michigan Department of Treasury, P.O. Box 30728, Lansing, Michigan 48909-8228.

The aforementioned subjects are not intended to be all-inclusive, but rather to give the independent certified public accountant guidelines, which will enable them to develop comprehensive audit procedures.

MISCELLANEOUS

Noncompliance with Provisions of this Bulletin

Where the Department of Treasury feels that the conditions of this bulletin have not been met, the state treasurer or his delegate shall review the independent certified public accountant's audit programs and discuss the audit with the independent certified public accountant. After this review, the state treasurer or his delegate may inspect all workpapers of the independent certified public accountant in an attempt to resolve differences. This can be done voluntarily with permission of the local unit or by subpoena as outlined in Public Act 2 of 1968, as amended, ([MCL 141.430](#)). Should differences of opinion still exist regarding the audit, the entire matter may be turned over to the Michigan Board of Accountancy. The local unit should be aware of the provisions of section 10 and written permission should be obtained by the independent certified public accountant to permit the review of the audit programs and the inspection of the workpapers by the state. (This written permission should be obtained to protect the certified public accountant from any future legal implications as a result of their voluntary action.)

Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits

The Michigan Department of Treasury has prepared this bulletin with the advice and cooperation of the Michigan Committee on Governmental Accounting and Auditing. Audits of local units of government in Michigan are to be audited in compliance with the provisions of the bulletin, in addition to generally accepted auditing standards.

The independent certified public accountant should be aware that they are obligated to follow the provisions in the bulletin. Failure to do so is an act discreditable to the profession in violation of Rule 501, unless the member discloses in their report the fact that such requirements were not followed and the reasons therefore.*

*Source--Interpretation 501-3, American Institute of Certified Public Accountants, Professional Ethics Division

APPENDIX A

BOND ACTIVITIES AND SINKING FUND AUDIT COMPLIANCE REQUIREMENTS APPLICABLE REVISED SCHOOL CODE SECTIONS

380.1351

(1) Until May 1, 1994, a school district may borrow money and issue bonds of the district to defray all or a part of the cost of purchasing, erecting, completing, remodeling, improving, furnishing, refurnishing, equipping, or reequipping school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; participating in the administrative costs of an urban renewal program through which the school district desires to acquire a site or addition to a site for school purposes; refunding all or part of existing bonded indebtedness; or accomplishing a combination of the purposes set forth in this subsection. In addition, until December 31, 1991 a school district may borrow money and issue bonds to defray all or part of the cost of purchasing textbooks.

(2) Except as otherwise provided in this subsection, a school district shall not borrow money or issue bonds for a sum that, together with the total outstanding bonded indebtedness of the district, exceeds 5% of the state equalized valuation of the taxable property within the district, unless the proposition of borrowing the money or issuing the bonds is submitted to a vote of the school electors of the district at an annual or special election and approved by the majority of the school electors voting on the question. Regardless of the amount of outstanding bonded indebtedness of the school district, a vote of the school electors is not necessary in order to issue bonds for a purpose described in section 1274a or to issue bonds under section 11i of the state school aid act of 1979, 1979 PA 94, [MCL 388.1611i](#). For the purposes of this subsection, bonds issued under section 11i of the state school aid act of 1979, 1979 PA 94, [MCL 388.1611i](#), shall not be included in computing the total outstanding bonded indebtedness of a school district.

(3) A school district shall not issue bonds under this part for an amount greater than 15% of the total assessed valuation of the district, except as provided in section 1356. A bond qualified under section 16 of article IX of the state constitution of 1963 and implementing legislation shall not be included for purposes of calculating the 15% limitation. Bonds issued under this part are subject to the revised municipal finance act, 2001 PA 34, [MCL 141.2101](#) to 141.2821, except that bonds issued for a purpose described in section 1274a may be sold at a public or publicly negotiated sale at the time or times, at the price or prices, and at a discount as determined by the board of the school district.

(4) Bonds or notes issued by a school district or intermediate school district under this part or section 442, 629 or 1274a shall be full faith and credit tax limited obligations of the district pledging the general funds, voted and allocated tax levies, or any other money available for such a purpose and shall not allow or provide for the levy of additional millage for payment of the bond or note without a vote of the qualified electorate of the district.

380.1351a

(1) Beginning with bonds issued after May 1, 1994, a school district may not borrow money and issue bonds of the district under section 1351(1). However, a school district may borrow money and issue bonds of the district to defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping or reequipping, except for equipping or re-equipping for technology, school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; furnishing or refurnishing new or remodeled school buildings; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; acquiring, installing, or equipping or reequipping school buildings for technology; or accomplishing a combination of the purposes set forth in this subsection. Section 1351(2) to (4) applies to bonds issued under this section.

(2) The proceeds of bonds issued under this section or under section 11i of the state school aid act of 1979, 1979 PA 94, MCL 388.1611i, shall be used for capital expenditures and to pay costs of bond issuance, and shall not be used for maintenance costs. Except as otherwise provided in this subsection, a school district that issues bonds under this section or under section 11i of the state school aid act of 1979, 1979 PA 94, MCL 388.1611i, shall have an independent audit, using generally accepted accounting principles, of its bonding activities under these sections conducted within 120 days after completion of all projects financed by the proceeds of the bonds and shall submit the audit report to the department of treasury. For bonds issued under section 11i of the state school aid act of 1979, 1979 PA 94, MCL 388.1611i, the independent audit required under this subsection may be conducted and submitted with the annual report required under the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

(3) A school district shall not borrow money and issue notes or bonds under this section to defray all or part of the costs of any of the following:

- (a) Upgrades to operating system or application software.
- (b) Media, including diskettes, compact discs, video tapes, and disks, unless used for the storage of initial operating system software or customized application software included in the definition of technology under this section.
- (c) Training, consulting, maintenance, service contracts, software upgrades, troubleshooting, or software support.

(4) A resident of a school district has standing to bring suit against the school district to enforce the provisions of this section in a court having jurisdiction.

(5) As used in this section, "technology" means any of the following:

- (a) Hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes.
- (b) The initial purchase of operating system software or customized application software, or both, accompanying the purchase of hardware and communication devices under subdivision (a).
- (c) The costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software authorized under this subsection.

380.1212

(1) If approved by the school electors of the school district, the board of a school district may levy a tax of not to exceed 5 mills on the state equalized valuation of the school district each year for a period of not to exceed 20 years, for the purpose of creating a sinking fund to be used for the purchase of real estate for sites for, and the construction or repair of, school buildings. The sinking fund tax levy is subject to the 15 mill tax limitation provisions of section 6 of article IX of the state constitution of 1963 and the property tax limitation act, Act No. 62 of the Public Acts of 1933, as amended, being sections [211.201](#) to 211.217a of the Michigan Compiled Laws. A school district that levies a sinking fund tax under this section shall have an independent audit of its sinking fund conducted annually, including a review of the uses of the sinking fund, and shall submit the audit report to the department of treasury. If the department of treasury determines from the audit report that the sinking fund has been used for a purpose other than those authorized for the sinking fund under this section, the school district shall repay the misused funds to the sinking fund from the school district's operating funds and shall not levy a sinking fund tax under this section after the date the department of treasury makes that determination.

(2) The proposition of levying a sinking fund tax shall be submitted to the school electors of the school district at an annual or special meeting or election.

(3) The question of levying taxes for the purpose of creating a sinking fund shall be by ballot in substantially the following form:

“Shall _____ levy _____ mills to create a sinking fund for the purpose of
(legal name of school district)
 _____ for a period of _____ years?
 Yes ()
 No ().”

(4) For the purposes of this section, millage approved by the school electors before December 1, 1993 for which the authorization has not expired is considered to be approved by the school electors.

380.1215

(1) Operating taxes shall be accounted for under the title of "general fund." The state board may establish other fund designations to clarify further the expenditure classifications for which general fund moneys may be used.

(2) Library money shall be accounted for under the title of "library fund."

(3) Building and site money shall be accounted for under the title of "building and site fund."

(4) Taxes collected for retiring bonded indebtedness shall be accounted for as required by the revised municipal finance act, 2001 PA 34, [MCL 141.2101](#) to 141.2821.

380.1221

(1) The treasurer of a board of a school district or board of directors of a public school academy shall deposit the funds of the school district or public school academy in financial institution or in a joint investment authorized by section 1223. The deposit shall be made in the name of the treasurer as an officer of the school district or public school academy. The board or board of directors shall designate the financial institution or institutions in which the funds of the school district or public school academy shall be deposited. The treasurer shall deposit funds of the school district or public school academy in 1 or more depositories in the proportion and manner determined by the board or board of directors.

(2) Notwithstanding subsection (1), additional funds of a school district or public school academy shall not be deposited or invested in a financial institution that is not eligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, [MCL 21.146](#).

(3) As used in this section, “deposit” includes purchases of or investment in shares of a credit union.

(4) As used in this section, “financial institution” means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this state under the laws of this state or the United States.

380.1223

(1) If authorized by resolution of the board of a school district, the treasurer may invest debt retirement funds, building and site funds, building and site sinking funds, or general funds of the district. The investment shall be made under subsection (7) and shall be restricted to the following:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable, at the option of the holder, upon not more than 90 days' notice, or if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit issued by a financial institution or share certificates of a state or federal credit union that is a financial institution.

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
 - (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
 - (e) United States government or federal agency obligation repurchase agreements.
 - (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
 - (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
 - (h) Investment pools, as authorized by the surplus funds investment pool act, 1982 PA 367, [MCL 129.111](#) to 129.118, composed entirely of instruments that are legal for direct investment by a school district.
- (2) An obligation purchased under this section, when received by the treasurer, shall be deposited with the financial institution having the deposit of the money of the particular fund from which the obligation was purchased.
- (3) Money in the several funds of a school district shall not be commingled for the purpose of making an investment authorized by this section except that:
- (a) The board of a school district may establish and maintain 1 common debt retirement fund for issues of bonds of similar character.
 - (b) The board of a school district, by resolution, may authorize the treasurer to combine money from more than 1 fund for the purpose of making an investment authorized by subsection (1)(h).
- (4) Earnings of an investment shall become a part of the fund for which the investment was made. When money of more than 1 fund of a single district or money of more than 1 district are combined for an investment pool authorized by subsection (1)(h), the money shall be accounted for separately, and the earnings from the investment shall be separately and individually computed, recorded, and credited to the fund or district, as the case may be, for which the investment was acquired.
- (5) The treasurer of a school district, if authorized by resolution of the board, may deposit upon approval of the employee, funds accumulated under a deferred compensation program in a federally insured financial institution authorized by law to do business in this state. If authorized by a resolution of the board, the treasurer of a school district, with the prior consent of the employee, may use funds accumulated under a deferred compensation plan to purchase from a life insurance company authorized to do business in this state an annuity contract or life insurance policy in the manner and for the purposes described in section 457 of the internal revenue code.
- (6) Security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a financial institution. However, an investment under section 622(2)(e) or section 1223(1)(e) or in an investment pool that includes instruments eligible for investments under sections 622(2)(e) and 1223(1)(e) shall be secured by the transfer of title and custody of the obligations to which the repurchase agreements relate and an undivided interest in those obligations must be pledged to the school district for these agreements.
- (7) Notwithstanding subsection (1), additional funds of a school district shall not be deposited or invested in a financial institution which is not eligible to be a depository of surplus funds belonging to this state under section 6 of 1855 PA 105, [MCL 21.146](#).
- (8) As used in this section, "deposit" includes purchase of or investment in shares of a credit union.
- (9) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this state under the laws of this state or the United States.

380.1267

- (1) Before commencing construction of a new school building, or addition to or repair or renovation of an existing school building, except repair in emergency situations, the board of a school district or board of directors of a public school academy, shall obtain competitive bids on all the material and labor required for the complete construction of a proposed new building or addition to or repair or renovation of an existing school building.

(2) The board or board of directors shall advertise for the bids required under subsection (1) once each week for 2 successive weeks in a newspaper of general circulation in the area where the building or addition is to be constructed or where the repair or renovation of an existing building is to take place. The advertisement for bids shall do all of the following:

- (a) Specify the date and time by which all bids must be received by the board or board of directors.
- (b) State that the board or board of directors will not consider or accept a bid received by the board or board of directors after the date and time specified for bid submission.
- (c) Identify the time, date, and place of a public meeting at which the board or board of directors or its designee will open and read aloud each bid received by the board or board of directors by the date and time specified in subdivision (a).

(3) The board or board of directors shall require each bidder for a contract under this section to file with the board or board of directors security in an amount not less than 1/20 of the amount of the bid conditioned to secure the school district from loss or damage by reason of the withdrawal of the bid or by the failure of the bidder to enter a contract for performance, if the bid is accepted by the board or board of directors.

(4) The board or board of directors shall not open, consider, or accept a bid that the board or board of directors receives after the date and time specified for bid submission in the advertisement for bids described in subsection (2).

(5) At a public meeting identified in the advertisement for bids described in subsection (2), the board or board of directors or its designee shall open and read aloud each bid that the board or board of directors received at or before the time and date for bid submission specified in the advertisement for bids. The board or board of directors may reject any or all bids, and if all bids are rejected, shall readvertise in the manner required by this section.

(6) This section does not apply to buildings, renovations, or repairs costing less than \$12,500.00 or to repair work normally performed by school district employees. The maximum amount specified in this subsection shall be adjusted each year by multiplying the amount for the immediately preceding year by the percentage by which the average consumer price index for all items for the 12 months ending August 31 of the year in which the adjustment is made differs from that index's average for the 12 months ending on August 31 of the immediately preceding year and adding that product to the maximum amount that applied in the immediately preceding year, rounding to the nearest whole dollar.

380.1274

(1) The board of a school district or board of directors of a public school academy shall adopt written policies governing the procurement of supplies, materials, and equipment. A school district or public school academy shall not purchase an item or a group of items in a single transaction costing \$12,500.00 or

more unless competitive bids are obtained for those items and the purchase of those items is approved by the school board or board of directors. The maximum amount specified in this subsection shall be adjusted each year by multiplying the amount for the immediately preceding year by the percentage by which the average consumer price index for all items for the 12 months ending August 31 of the year in which the adjustment is made differs from that index's average for the 12 months ending on August 31 of the immediately preceding year and adding that product to the maximum amount that applied in the immediately preceding year, rounding to the nearest whole dollar.

(2) The board of a school district or local act school district or board of directors of a public school academy may acquire by purchase, lease, or rental, with or without option to purchase, equipment necessary for the operation of the school program, including, but not limited to, heating, water heating, and cooking equipment for school buildings, and may pay for the equipment from operating funds of the district or public school academy. Heating and cooking equipment may be purchased on a title retaining contract or other form of agreement creating a security interest and pledging in payment money in the general fund or funds received from state school aid. The contracts may extend for not more than 10 years.

APPENDIX B

BOND ACTIVITIES AUDIT COMPLIANCE REQUIREMENTS APPLICABLE SCHOOL BOND LOAN ACT SECTIONS

388.954a

(1) Subject to subsection (2), an unexpended balance of the proceeds of sale of any school district bonds heretofore or hereafter issued, remaining after completion of the project, to the extent of 15% of the amount of the issue or, for a fourth class school district located in a county with a population of not more than 27,000, to the extent of 40% of the amount of the issue, with the approval of the electors in the case of bonds issued before August 28, 1964, may be used for school construction, equipment and site acquisition and development if that use is approved by the superintendent of public instruction, and any remaining balance shall be paid immediately into the bond and interest redemption fund established for the bonds and shall be used either for the redemption of callable bonds, or, before the first call date only, for purchasing the bonds on the open market at not more than the fair market value or used to reduce the amount required to be levied to meet current principal and interest on the bonds as they become due. Any unexpended balance of the proceeds of sale of any school district bonds heretofore or hereafter issued, remaining after payment in full of the principal of and interest on the bonds, may be used to increase or continue expenditures for any of the projects or purposes for which the bonds were initially authorized and issued, even though all projects for which the bonds were initially authorized and issued have not been completed. This section shall apply unless allocations of specified amounts for stated projects or purposes were contained in the ballot question by which the bonds were initially authorized, in which case the use must be approved by the superintendent of public instruction.

(2) The superintendent of public instruction shall not approve a use of the unexpended balance of the proceeds of any school district bonds as authorized under subsection (1) unless he or she finds that the school district seeking approval has demonstrated a compelling justification for not immediately paying all of the unexpended balance into the bond and interest redemption fund established for the bonds.

(3) As used in this section, "fourth class school district" means a school district organized as a school district of the fourth class under the school code of 1976, Act No. 451 of the Public Acts of 1976, being [sections 380.1](#) to 380.1852 of the Michigan Compiled Laws.

APPENDIX C

Note: Appendix D is an example of the audit report if issued for the entire construction period as a stand alone financial audit report of the entire project.

April 11, 2003

Independent Auditors' Report on Statement of Revenues and Expenditures

The Board of Education
School District of the City of Any Town, Michigan:

We have audited the accompanying balance sheet, statement of revenues and expenditures and changes in fund balance of the 2001 School Building and Site Bond Issue Capital Project Fund of the School District of the City of Any town, Michigan (School District), for the eighteen month and nineteen day period ended December 31, 2002. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code, Public Act 451 of 1976, as amended, [\(MCL 380.1351a\)](#) as described in Note _____. The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the 2001 School Building and Site Bond Issue Capital Project Fund of the School District of the City of Any Town, Michigan at December 31, 2002 and the results of its operations for the eighteen month and nineteen day period then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2003 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

SCHOOL DISTRICT OF THE CITY OF ANY TOWN, MICHIGAN
2001 School Building and Site Bond Issue Capital Projects Fund
Balance Sheet
December 31, 2002

ASSETS	
Cash	\$ -
	<hr/>
Total Assets	-
	<hr/>
LIABILITIES	
Accounts Payable	-
	<hr/>
Total Liabilities	-
	<hr/>
Fund Balance	\$ -
	<hr/> <hr/>

See Accompanying Notes to Financial Statements.

SCHOOL DISTRICT OF THE CITY OF ANY TOWN, MICHIGAN
 2001 School Building and Site Bond Issue Capital Projects Fund
 Statement of Revenues and Expenditures and Changes in Fund Balance
 for the Eighteen Month and Nineteen Day Period Ended December 31, 2002

Revenues--Investment Income	<u>\$ -</u>
Expenditures	
Capital Outlay	
Building Improvements	-
Equipment	-
Other	-
Bond Costs and Fees	<u>-</u>
Total Expenditures	<u>-</u>
Deficiency of Revenues Under Expenditures	<u>-</u>
Other Financing Sources--Proceeds From Bonds	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures	-
Fund Balance at Beginning of Period	<u> </u>
Fund Balance at End of Period	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements.

The following sample notes are not intended to be all-inclusive. The School District and CPA should review GASB and AICPA publication to determine if additional disclosures are necessary.

(1) Reporting Entity

The School District of the City of Any Town, Michigan (District), is comprised of P-12 and Any Community College (College) operations. The School District's Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. This report includes only the balance sheet and statement of revenues, expenditures and changes in fund balance of the 2001 School Building and Site Bond Issue Capital Project Fund of the District. Its activities are considered to be part of the School District and controlled by the Board of Education.

(2) Bond Description

General

The School District issued the 2001 General Obligation School Building and Site Bond Issue on June 12, 2001, in the amount of \$7,600,000. The principal and interest on this bond issue is financed primarily from property taxes. The bonds, dated May 1, 2001, which bear interest at 5 percent to 7 percent are due serially through 2016.

The bond proceeds and interest income earned on those proceeds were used for the purpose of erecting, furnishing, and equipping an elementary school building; demolishing an existing structure; and improving and developing the site.

Basis of Presentation

The accompanying statements have been prepared based on the modified accrual basis of accounting, in accordance with generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The Michigan Revised School Code, Public Act 451 of 1976, as amended, ([MCL 380.1351a \(1\) and \(2\)](#)) requires that for bonds issued under that section after May 1, 1994, an independent audit be performed on certain operating results and compliance tests performed related to specified bond activities.

The accompanying statements reflects the activity of the 2001 General Obligation School Building and Site Bond Issue, recorded in the District's 2001 School Building and Site Bond Issue Capital Project Fund, from the date of the bond issue, June 12, 2001, through project completion, December 31, 2002, as indicated on the Certificate of Substantial Completion ([AIA Form G704](#)). The project, for which the bonds were issued, was considered complete, with all funds expended, as of December 31, 2002.

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

[No Reportable Instances of Noncompliance and No Material Weaknesses
(No Reportable Conditions Identified)]

The Board of Education
School District of the City of Any Town, Michigan:

We have audited the balance sheet, statement of revenues and expenditures and changes in fund balance of the 2001 School Building and Site Bond Issue Capital Project Fund of the School District of the City of Any Town, Michigan (School District), for the eighteen month period ended December 31, 2002, and have issued our report thereon dated April 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether School District of the City of Any Town's financial statements for the 2001 School Building and Site Bond Issue Capital Project Fund are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered School District of the City of Any Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

April 11, 2003

Note: Appendix D is an example of the transmittal package when the school district submit all of the annual audits for the construction period to the Department of Treasury. The transmittal should include a summary or compilation of annual audits and a certification from the district that the compilation accurately reflects the attached audits.

Appendix D

Summary of Revenues and Expenditures and Changes in Fund Balance
For the _____ Month Period Ended _____, 19XX

Revenues--Investment Income	<u>\$ -</u>
Expenditures	
Capital Outlay	
Building Improvements	-
Equipment	-
Other	-
Bond Costs and Fees	<u>-</u>
Total Expenditures	<u>-</u>
Deficiency of Revenues Under Expenditures	<u>-</u>
Other Financing Sources--Proceeds From Bonds	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures	-
Fund Balance at Beginning of Period	<u> </u>
Fund Balance at End of Period	<u><u>\$ -</u></u>

The above financial information is compiled from the district's annual audited financial statements. This bond construction fund was included in the scope of the audit as required by the above audit guide. In accordance with the requirements of the above audit guide, the annual financial report included disclosures relating to compliance findings or reportable conditions, when required.

(NOTE: These reported amounts should agree with the amounts included in the annual audits submitted. To simplify preparation, the above Statement of Revenue, Expenditures and Changes in Fund Balance can be prepared in a column format showing annual activity with a total for the project period.)

The following items were disclosed in the annual reports:

NONE (or describe)

S A M P L E

Appendix D

TRANSMITTAL CERTIFICATION

This is to certify that to the best of my knowledge and belief, the school district has engaged an independent auditor to perform annual audits of the above bond fund in accordance with the "Bulletin for School District Audits of Bonded Construction Fund and of Sinking Funds in Michigan." The auditor has completed such audits and the data included on this transmittal is true and correct.

Signed,

Signature and Date

Name (print)

Title

School District

Checklist for the minimum documents to be submitted with this Transmittal (from annual audits for all fiscal years involved in the construction period).

	Year 20X1 Page No.	Year 20X2 Page No.	Year 20X3 Page No.
Opinion on Financial Statements	_____	_____	_____
Bond Compliance Footnote	_____	_____	_____
Bond Balance Sheet	_____	_____	_____
Bond Revenue and Expenditure Statement	_____	_____	_____
Compliance Letter (for General Purpose Financial Statements) (See section __, page __)	_____	_____	_____
Schedule of Findings and Questioned Costs--Section II (if findings exist)	_____	_____	_____

Appendix E

Sample Extension Request

Local Audit and Finance Division
Michigan Department of Treasury
P.O. Box 30728
Lansing, Michigan 48909-8228

Dear Local Audit and Finance Division:

Re: _____ School District
_____ School Building and Site Bonds

Our district received a Certificate of Substantial Completion for our last project for the above mentioned bonds that is dated _____. At that time there was \$_____ remaining in our construction fund for these bonds. These funds represent _____% of the original bond issue. Our school district would like an extension on the end date for the construction period to _____. This date is more appropriate because _____.

Thank you for your consideration of this request.

Sincerely,

Appendix F

Sample Certification of Substantial
Completion
[AIA Document G704](#)

Attachment Follows

**Certification of
Substantial Completion**
**AIA Document G704 -
Electronic Format**

OWNER
ARCHITECT
CONTRACTOR
FIELD
OTHER

[[
[[
[[
[[
[[

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION. AUTHENTICATION OF THIS ELECTRONICALLY DRAFTED AIA DOCUMENT MAY BE MADE BY USING AIA DOCUMENT D401.

PROJECT:
(Name and address)

PROJECT NO.:

CONTRACT FOR:

CONTRACT DATE:

TO OWNER:
(Name and address)

TO CONTRACTOR:
(Name and address)

DATE OF ISSUANCE:
PROJECT OR DESIGNATED PORTION SHALL INCLUDE:

The Work performed under this Contract has been reviewed and found, to the Architect's best knowledge, information and belief, to be substantially complete. Substantial Completion is the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Contract Documents so the Owner can occupy or utilize the Work for its intended use. The date of Substantial Completion of the Project or portion thereof designated above is hereby established as which is also the date of commencement of applicable warranties required by the Contract Documents, except as stated below

A list of items to be completed or corrected is attached hereto. The failure to include any items on such list does not alter the responsibility of the Contractor to complete all Work in accordance with the Contract Documents.

ARCHITECT

BY

DATE

The Contractor will complete or correct the Work on the list of items attached hereto within days from the above Date of Substantial Completion

CONTRACTOR

BY

DATE

The Owner accepts the Work or designated portion thereof as substantially complete and will assume full possession thereof at (time) on (date).

OWNER

BY

DATE

The responsibilities of the Owner and the Contractor for security, maintenance, heat, utilities, damage to the Work and insurance shall be as follows:

(Note—Owner's and Contractor's legal and insurance counsel should determine and review insurance requirements and coverage.)

AIA DOCUMENT G704 - CERTIFICATION OF SUBSTANTIAL COMPLETION - 1992 EDITION - AIA - COPYRIGHT 1992 - THE AMERICAN INSTITUTE OF ARCHITECTS, 1735 NEW YORK AVENUE, N.W., WASHINGTON, D.C., 20006-5292.. WARNING; Unlicensed photocopying violates U.S. copyright laws and is subject to legal prosecution. This document was electronically produced with permission of the AIA and can be reproduced without violation until the date of expiration as noted below.

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